

## Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 OMB-01 INT-08 FEA-02

FMC-04 CG-00 COA-02 DLOS-06 DOTE-00 DRC-01 /125 W

----- 103462

R 151024Z JAN 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2873

LIMITED OFFICIAL USE SECTION 1 OF 2 ISLAMABAD 0494

FOLLOWING TEL FROM KARACHI SENT ACTION ISLAMABAD INFO LAHORE  
ON JAN 14, REPEATED TO YOU:

QUOTE

KARACHI 0066

E.O. 11652: N/A

TAGS: EIND, PK

SUBJ: NATIONALIZATION: PETROLEUM MARKETING AND MARITIME  
SHIPPING COMPANIES

REF: (A) STATE 004435

(B) ISLAMABAD 0302

SUMMARY: CONGEN PROVIDES BELOW PER INSTRUCTIONS REF B  
FURTHER DETAILS CONCERNING JAN 1 NATIONALIZATION OF PETROL  
MARKETING AND MARITIME SHIPPING COMPANIES, AND OUR COMMENTS  
ON IMPLEMENTATION THESE MEASURES TO DATE. END SUMMARY

1. SHIPPING: UNDER MARITIME SHIPPING REGULATIONS AND CONTROL  
ORDINANCE OF JAN 1, GOP TOOK OVER NINE SHIPPING FIRMS WITH  
A TOTAL FLEET OF TWENTY-SEVEN SHIPS. THIS COMPARES WITH  
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TWENTY-FIVE SHIPS OWNED BY GOVERNMENT-CONTROLLED NATIONAL SHIPPING

CORPORATION (NSC). TAKEN-OVER SHIPPING FIRMS RANGE IN SIZE FROM PAN ISLAMIC STEAMSHIP CO. WITH EIGHT SHIPS DOWN TO FOUR COMPANIES WITH ONE SHIP EACH. ALL TAKEN-OVER SHIPPING FIRMS HAVE BEEN PUT UNDER SINGLE MANAGEMENT HEADED BY COMMODORE AKHTAR HANIF, MNG DIR OF NSC. NINE "OFFICE\*S ON SPECIAL DS6" HAVE BEEN APPOINTED TO CHECK ACCOUNTS AND ASSETS OF TAKEN-OVER SHIPPING FIRMS AND WILL WORK UNDER THE DIRECTION OF HANIF. MOST OSD'S ARE SENIOR OFFICERS FROM DIRECTORATE GENERAL OF PORTS AND SHIPPING, KARACHI PORT TRUST, NATIONAL SHIPPING CORPORATION, AND THE SHIPPING LINES THEMSELVES. AS NAME IMPLIES, APPOINTMENT OF OSD'S ISLOEMPORARY MEASURE PENDING DECISION ON HOW TO REORGANIZE NINE TAKEN-OVER FIRMS. DURING INTERIM PERIOD ALL STAFF OF TAKEN-OVER FIRMS HAVE BEEN RETAINED AND ARE OPERATING NORMALLY WITH EXCEPTION OF TOP EXECUTIVE IN EACH FIRM, WHO REPLACED\*BY OSD, AND OWNERS/PARTNERS.

2. PLANS FOR REORGANIZATION, ACCORDING TO SHIPPING CIRCLES STILL UNDETERMINED, PERHAPS EVEN BY GOP ITSELF. PRESS AND OTHER SPECULATION ON REORGANIZATION HAS INVOLVED EITHER MERGER WITH NSC OR FORMATION OF SECOND NATIONAL FIRM TO INCLUDE ALL ASSETS AND SHIPS OF TAKEN-OVER COMPANIES. U.S. INTERESTS IN PAKISTAN HAVE NOT BEEN AFFECTED DIRECTLY OR INDIRECTLY BY TAKE-OVER OF COMPANIES. THERE HAS BEEN CONSIDERABLE PESSIMISTIC COMMENT IN SHIPPING CIRCLES ON EFFICIENCY WITH WHICH THE NEWLY NATIONALIZED FIRMS MAY BE OPERATED IN FUTURE, SINCE NSC WELL KNOWN AS A MONEY LOSER OWING PERHAPS TO OPERATION MORE ON GROUND OF NATIONAL INTEREST AND REQUIREMENTS THAN

AS A PROFIT SEEKING ORGANIZATION. NSC LOST ABOUT NINE CRORES OF RUPEES (\$/NINE MILLION) IN LAST FISCAL YEAR, THREE OF WHICH MADE UP BY INSURANCE PAYMENTS, WHILE AT LEAST SIX OF PRIVATE COMPANIES REPORTEDLY OPERATED AT A PROFIT.

3. PETROLEUM MARKETING: ONLY TWO OIL COMPANIES AFFECTED BY MAR\*ETI\*G OF PETROLEUM PRODUCTS ORDINANCE OF JAN 1. THESE ARE DAWOOD PETROLEUM LTD., WITH ABOUT 50 RETAIL STATIONS AND 10 PERCENT OF\*MARKET, AND PAKISTAN NATIONAL LIMITED OFFICIAL USE

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OIL LTD. WITH ABOUT 300 STATIONS AND 25 PERCENT OF MARKET. CONTROLLING STOCK IN DAWOOD PETROLEUM OWNED BY DAWOOD GROUP. PNOL, DESPITE ITS NAME, WAS PRIVATELY OWNED, WITH ABDUL JALIK AND BROTHERS PRINCIPAL STOCK HOLDECM. AHMAD ALAWALLA, MNG DIR NATIONAL REFINERY LTD., APPOINTED AS MNG DIR OF PNOL. MAJOR GENERAL J.A. FAROOQI, CHAIRMAN GOVERNMENT-OWNED OIL AND GAS DEVELOPMENT CORPORATION, APPOINTED MNG DIR OF DAWOOD PETROLEUM.

4. NO FOREIGN OIL FIRMS NATIONALIZED, INCLUDING PAK-ISTAN BURMAH SHELL WITH MINORITY FOREIGN INVESTMENT OF 49 PER-CENT. LICENSING ARRANGEMENTS FOR DEALERSHIPS AT RETAIL PETROL STATION LEVEL REMAIN UNAFFECTED BY TAKE-OVER, ALTHOUGH, IN MINORITY OF CASES WHERE PNOL AND DAWOOD-OWNED RETAIL STATIONS AND/OR REAL ESTATE ON WHICH BUILT, THESE ASSETS, OF COURSE, HAVE BEEN NATIONALIZED ALONG WITH FIRMS THEMSELVES.

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5. COMMENT: TIMING OF SHIPPING AND PETROLEUM TAKE-OVER NO DOUBT KEYED TO THAT OF MUCH MORE IMPORTANT BANK NATIONALIZATION AS ALL-IN-ONE MEASURE, WHICH NO DOUBT GOP FOUND PREFERABLE TO STRUNG-OUT SERIES OF PIECEMEAL NATIONALIZATIONS. REASONS FOR SHIPPING TAKEOVER NOT ENTIRELY CLEAR EXCEPT THAT NATIONALIZATION OF TRANSPORTATION INCLUDED IN PPP MANIFESTO, AND OWNERSHIP OF AT LEAST TWO OF THE PRIVATE SHIPPING FIRMS HAS BEEN IN HANDS OF MINORITY NON-MUSLIM PARSEES.

6. SENIOR ESSO EXECUTIVE HERE BELIEVES DAWOOD AND PNOL TAKEN OVER BECAUSE OF POLITICALLY SENSITIVE NATURE OF WHOLE PETROLEUM PRODUCT SUPPLY PROBLEM AND IN ORDER THAT GOP MAY EXERCISE INCREASE LEVERAGE IN REMAINING

FOREIGN-OWNED OIL COMPANIES. ESSO EXEC POINTS OUT  
DAWOOD HAS SUPPLY CONTRACT WITH KUWAIT FOR ABOUT 35 PERCENT OF  
THE DEFICIT REFINED PRODUCTS, KEROSENE AND LIGHT DIESEL OIL. IN  
PAST EQUITABLE PORTION THESE PRODUCTS ALLOCATED TO  
FOREIGN OIL FIRMS FOR RETAILING, BUT GOP COULD NOW  
ARBITRARILY THREATEN TO ALTER ALLOCATIONS, RESULTING  
IN DIMINISHED PROFITS AND MORE DIFFICULT POSITION FOR  
FOREIGN OIL FIRMS. ESSO EXEC AS WELL AS SENIOR CALTEX  
REP HERE, BOTH POINT OUT TAKEOVER WILL GIVE GOP INCREASED  
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POWER TO REWARD SUPPORTERS AND PENALIZE OPPOSITION  
THROUGH AWARD RETAIL DEALERSHIP. BOTH BELIEVE WILL  
NOT BE LONG BEFORE PNOL AND DAWOOD DEALERSHIPS CARE-  
FULLY SCRUTINIZED WITH VIEW TO POSSIBLE CHANGES IN  
FRANCHISES FOR POLITICAL PURPOSES.

7. OIL REFINING NOT AFFECTED BY NATIONALIZATION MEASURES SINCE NATIONAL REFINERY LTD. AT KARACHI ALREADY GOVERNMENT-CONTROLLED, AND PAE STV REFINERY LTD 60 PERCENT FOREIGN OWNED. US OIL EXECS BELIEVE GOP POLICY FOR AT LEAST SHORT TERM WILL BE TO LEAVE MANAGEMENT PNOL AND DAWOOD PRETTY MUCH AS IS, SINCE GOP DEVOUTLY DESIRES SMOOTH TAKEOVER AND AFRAID WILL FALL ON ITS FACE IF EXECUTIVE STRUCTURE CHANGED. ESSO EXEC, SPEAKING WITH GREAT CONFIDENTIALITY, SAID HIS NEGOTIATIONS WITH GOP FOR SELLOUT ENTIRE ESSO HOLDINGS IN PAKISTAN TO GOP, WHICH HAVE BEEN GOING ON AT SLOW PACE OVER LAST SEVERAL MONTHS HAVE, TO HIS SURPRISE, APPARENTLY NOT BEEN AFFECTED BY NATIONALIZATION MEASURE. GOP STILL APPEARS INTERESTED IN BUYING OUT ESSO, BUT STRIKING POINT WILL COME ON EVALUATION ESSO ASSETS, WITH GOP PROBABLY HOLDING OUT FOR SALE ON BREAK-UP VALUE FORMULA AND ESSO ASKING FOR PAYMENT ON BASIS REPLACEMENT COST LESS DEPRECIATION, WHICH ROUGHLY THREE TIMES THAT OF BOOK OR BREAK-UP VALUE.  
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## Message Attributes

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